

TESTIMONY
of the
DETROIT/WAYNE COUNTY PORT AUTHORITY
on
MICHIGAN HOUSE OF REPRESENTATIVES LEGISLATION No. 5029
a bill to amend 1978 PA 639
"HERTEL-LAW-T. STOPCZYNSKI PORT AUTHORITY ACT"

August 31, 2005
Lansing, Michigan

Thank you Chairman Palsrok, and thank you to all members of the Committee on Natural Resources, Great Lakes, Land Use and Environment for the chance to comment on House Bill 5029 as introduced by Representative Tupac Hunter. On behalf of my Executive Director, Curtis Hertel, we appreciate the opportunity to bring before you these proposed enhancements to our enabling legislation that we feel could greatly benefit economic development initiatives throughout our jurisdiction.

History/Snapshot of PA 639 of 1978

The Detroit/Wayne County Port Authority (DWCPA) was legislatively enabled in 1978 through the Hertel-Law-T. Stopczynski Port Authority Act. Led by our first Board Chairman, Henry Ford II, our mission is to "develop and improve commerce and recreation" through broad economic development capabilities. Throughout its history, the DWCPA has been a liaison between our private port terminal operators, and our constituent units of government that include the City of Detroit, Wayne County and the State of Michigan, on issues that affect the Port of Detroit. However, our current enabling legislation is outdated, and insufficient for meeting the demands of modern day economic development. We are unable to assist those that seek our assistance for access to long-term, low-cost capital improvement financing. It is with careful planning, thought and consideration, that we propose to you these amendments in House Bill 5029,

that we feel will greatly enhance our ability to provide creative economic development solutions throughout Metro Detroit.

Port authorities generally are created by law and have primary responsibility over waterfront, and transportation activities. However, through the years, port authorities have become, and are emerging as, important partners in structured financing for capital improvements off the waterfront and in their respective communities.

Port authorities are generally viewed as hybrid governmental and business organizations. The DWCPA was created, and is essentially directed by its constituent units of government (City of Detroit, Wayne County and State of Michigan), subsidized by government, and possesses powers typical of government including condemnation, various other land development capabilities and unlimited bonding capacity. However, the DWCPA also possesses powers typical of private enterprise in that it is independently operated, separate from its constituent units, can raise money and apply for grants from both public and private sources, and most importantly, can retain and reinvest revenues.

Port authorities are established as independent agencies and are responsible for producing revenue, typically via lease payments from terminal operators for land owned by the port authority. This is how port authorities have received their business-friendly, more corporate-thinking approach toward economic development.

Today, as the port grows, evolves and changes, particularly in Detroit, there is an ever-increasing demand for redevelopment of vacant and/or underutilized parcels of property. And, the DWCPA is well-positioned to step into an increased role as an economic development partner.

The current DWCPA enabling legislation was perfect for the late 1970s, but today, is outdated and ill-prepared to handle the needs of today's industry and the ever-changing face of urban and regional economic development.

Problems with PA 639 of 1978

The biggest problem with PA 639 of 1978 is that it too narrowly defines the types of projects the DWCPA can become involved with. It lists examples, many of which reflect what the city and county desired back in the mid-1970s. However, today, business and industry are seeking creative financing solutions along our waterfront, and in the neighboring communities. They are seeking the public-private partnership solutions the DWCPA could provide, given a broader scope of what defines a "port facility," or applicable project under our current enabling legislation.

The current DWCPA enabling legislation also imposes redundant approval processes. It asks for approvals from the constituent units of government, in addition to their appointed Board Members, more than once, essentially adding layers of approvals that no other special-purpose entity, or economic development corporation, needs to abide by.

Proposed Solution

The DWCPA proposes adding language that broadens the authority of applicable projects, expanding our jurisdiction off the waterfront, and into the community. By adding additional authorized purposes, the DWCPA can market its unique financing capabilities in and around other regional fixed assets, including transportation assets, which will attract private investment. Private entities, including many new financial institutions throughout Southeast Michigan have expressed interest in DWCPA assistance for fixed-asset financing. By having these additional authorized purposes, the DWCPA can expand its range of

involvement, and contribute these immense benefits toward other projects that promote economic development, including residential, commercial and recreational programs. All of this greatly enhances the business environment in Southeast Michigan, and continues to fulfill our original chartered mission. The DWCPA firmly believes that its overall mission should be to add value to the community, while providing itself net revenue that may be used to enhance infrastructure for both maritime and non-maritime activities.

Case Study: GM/Port Authority Mixed-Use Facility

The best possible example of the DWCPA's capabilities includes its unique partnership with General Motors Corporation (GM) on the downtown Detroit waterfront. Partnering with GM, the DWCPA issued \$43 million in revenue bonds for the construction and development of a mixed-use facility in December of 2004. Predominately a parking facility, the project, located adjacent to General Motors' World Headquarters on an existing surface lot, will provide 1,174 parking spaces and have 18,000 square feet of ground floor retail space. The project will serve as a primary parking facility for GM's Renaissance Center employees, including OnStar Corporation and users of the DWCPA Public Dock and Terminal facility and Riverfront Conservancy district during evening and weekend events.

The DWCPA has structured a lease arrangement with GM to use the facility. The DWCPA, synthetically, owns the structure, with GM responsible for all construction and operation. GM is committed contractually to annual lease payments with renewable options following the initial five-year base term. Some of the benefits of this structure for the client include:

- The DWCPA will own the facility and lease it back to GM. This allows them to preserve their credit rating and debt capacities for other projects.

- The debt issue via the DWCPA enabled the transaction to be 100% debt financed. The DWCPA is a public, rather than private, conduit for financing in this project. Thus, 100% of the debt can be financed.
- GM can capture depreciation in the asset through the structure of the financing.
- The lease payments are tied very closely to the lease revenue debt issued, preventing the typical private-sector developer mark-up.
- GM/Riverfront Holdings retain control of the asset, including all construction and operation activities.
- The DWCPA realized an up-front application fee, plus will receive annual fees that help offset administrative costs. This provides a separate revenue-generating opportunity for the DWCPA, which should be the model of special-purpose public governmental units during tight budget times.

Examples from Other Cities

The St. Paul Port Authority, in Minnesota, is well regarded as having led the way on the evolution of effective financing solutions from maritime assets, to those off the waterfront. For the past thirty years, it has provided development financing for small to medium-sized industrial operations, hotels, parking decks, and a variety of other downtown and suburban facilities.

Other notable examples include the New York/New Jersey Port Authority acquiring, financing, building and, at one time, managing, the World Trade Center. The San Diego Port Authority finances and generates net revenue from the operation of a convention center, several hotels, and a variety of retail outlets

as well as operating maritime and aviation facilities. Smaller ports have become active, including the port of Everett, Washington, which owns and manages the second-largest marina on the west coast.

Today, one of the most successful port authorities, regionally, possessing these same types of powers, has been the Cleveland-Cuyahoga County Port Authority. They have taken similar steps, to what the DWCPA is proposing, in modifying their enabling legislation to better reflect the climate of today's business community, and to better suit themselves in helping structure creative financing solutions for capital improvements in Greater Cleveland. Although, the Cleveland Rock n' Roll Hall of Fame and Museum maybe the most visible, the Cleveland-Cuyahoga County Port Authority has financed corporate headquarters and many other fixed-assets totaling more than \$1 billion.

Conclusion

Public Act 639 of 1978 was a great idea, as evidenced by the participation of Henry Ford II. However, today it is outdated, too narrowly defined, and uncompetitive with other Great Lakes port authorities that have all taken the steps to update their enabling bills. These proposed changes address today's economic development climate, enhance our ability to provide assistance for other types of capital improvements, allowing this Port Authority in Detroit and Wayne County to compete, not just with other neighboring port communities regionally, but for investments globally. Thank you, Chairman Palsrok, and thank you to everyone on the Committee for your time.